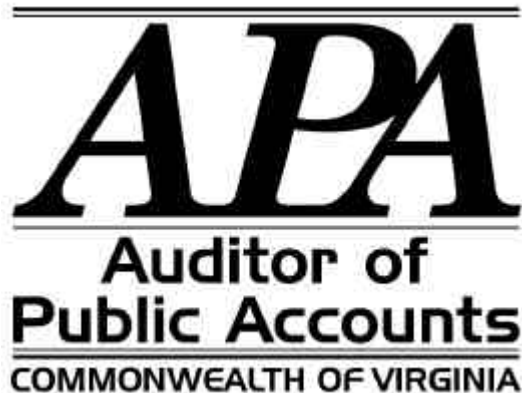


**DEPARTMENT OF GAME AND INLAND FISHERIES
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Department of Game and Inland Fisheries for the year ended June 30, 2001, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- an internal control matter that we consider to be a reportable condition, however, we do not consider the finding to be a material weakness; and
- no instances of noncompliance with applicable laws and regulations tested that are required to be reported.

The Department should properly record and track assets on the Fixed Asset Accounting and Control System.

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March 20, 2002

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Game and Inland Fisheries** for the year ended June 30, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues and Cash Receipts	Fixed Assets
Expenditures	Systems

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted one matter involving internal control and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. The reportable condition, entitled "Properly Record and Track Assets on the Fixed Asset Accounting and Control System" is described in the section titled "Internal Control Findings and Recommendations." We believe that the reportable condition is not a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

We discussed this report with management on April 18, 2002.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY BACKGROUND AND FINANCIAL HIGHLIGHTS

Agency Overview

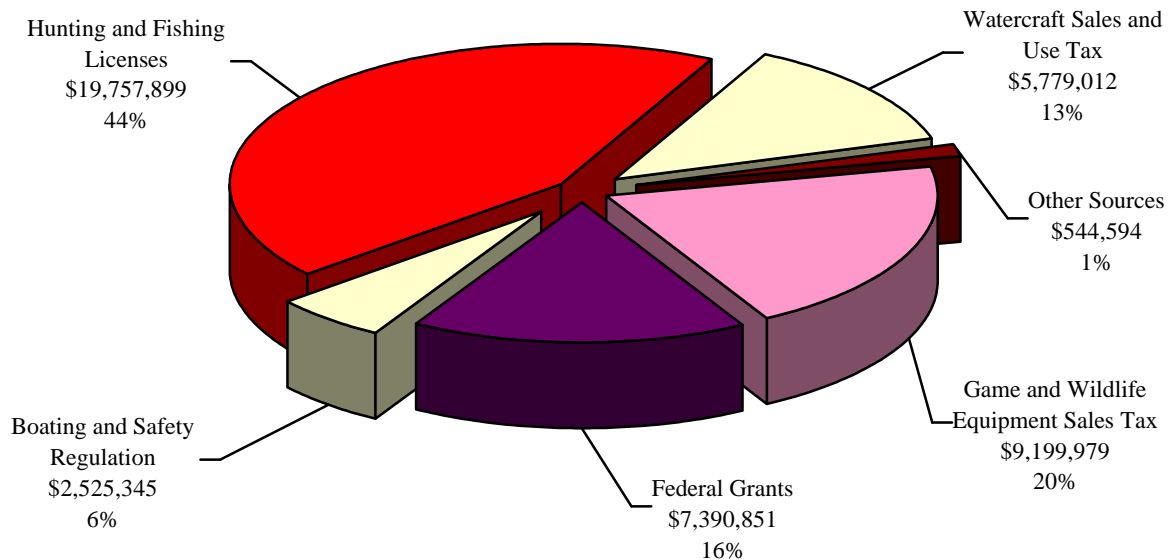
The Department of Game and Inland Fisheries manages Virginia's wildlife and inland fish to maintain optimum populations of all species; provides opportunities for all to enjoy wildlife, inland fish, boating, and related outdoor recreations; and promotes boating, hunting, and fishing safety. A supervisory board of 11 members, one from each congressional district, governs the Department. The Governor appoints board members to four-year terms. The Board appoints an executive director who serves as the principal administrative officer for the Department.

The Department enforces laws for the protection, propagation, and preservation of wildlife and fish, assists in enforcing all forestry laws, and seeks to increase game and fish populations. The Department owns and maintains 39 lakes and maintains an additional 191 lakes and 28,350 miles of fishable streams. The Department manages over 206,000 acres of land on 34 wildlife management areas and maintains over 1,000 miles of roadways within those wildlife areas. The Department also manages approximately two million acres of federal land mostly in National Forests.

Financial Highlights

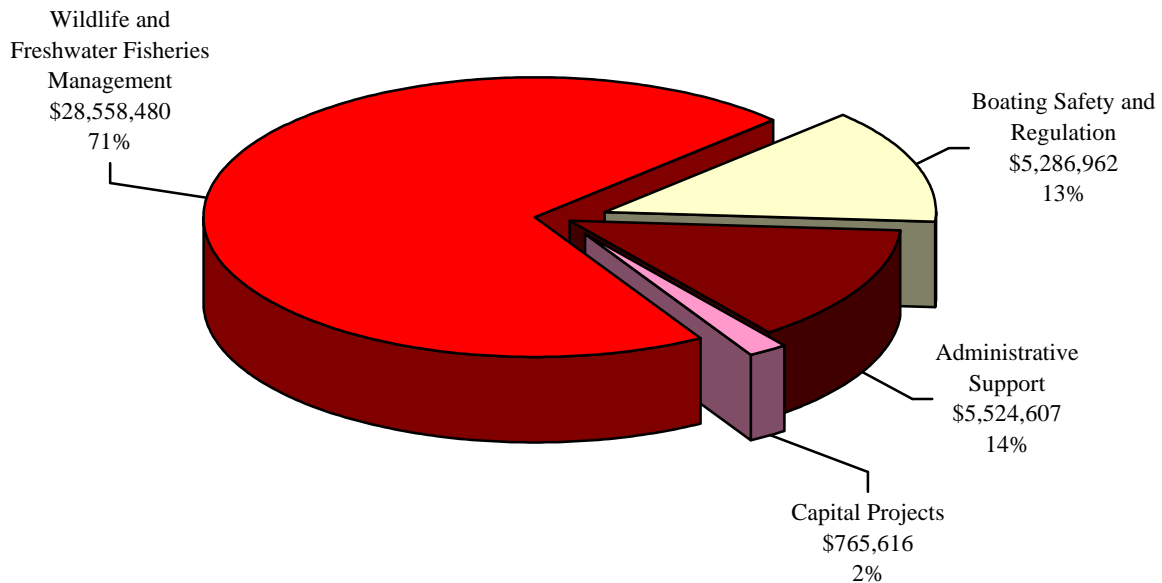
The Department received over \$45.2 million in revenue during fiscal year 2001. Also, the Department carried over an additional \$11.9 million cash balance from the prior year. The following chart illustrates the Department's revenue sources.

Revenue Sources



The Department spent approximately \$40.1 million on programs during fiscal year 2001. The following chart shows the total expenses by program.

Expenses by Program



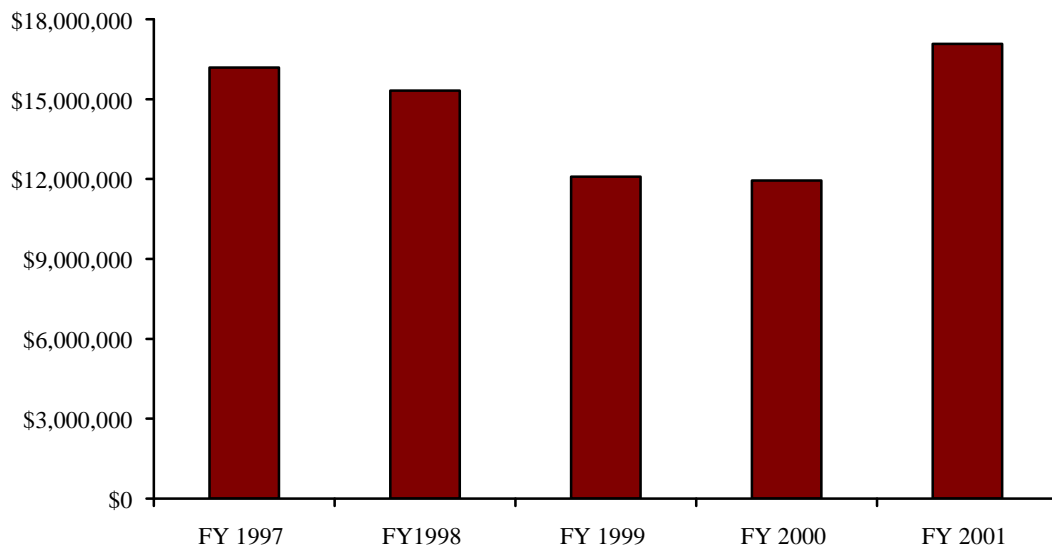
During fiscal year 2001, the Department obtained a \$3 million Treasury loan and purchased 8,300 acres of land in Wythe County. Current legislation allows the Department to pay the loan off at a rate of \$1 million over the next three years. The Department plans to use current cash balances to repay this loan.

Game and Wildlife Equipment Sales Tax

In 1998, the General Assembly passed legislation that allocates up to \$13 million per year in existing sales tax collections on hunting, fishing, and wildlife-watching equipment to the Department, starting July 1, 2000. The sales tax allocation to the Department uses the National Survey of Fishing, Hunting and Wildlife-Associated Recreation conducted by the United States Fish and Wildlife Service, which estimates the amount of gross sales purchases by anglers, hunters, and wildlife-watchers. The General Assembly enacted the allocation because of the Department's inability to continue to provide services and fund the increasing cost of these services from its historical revenue source, primarily hunting and fishing licenses.

In fiscal year 2001, the Department received \$9.2 million from the sales tax collections on hunting, fishing, and wildlife watching equipment; creating a revenue surplus of \$5.1 million. As the graph illustrates below, the revenue surplus resulted in the increase of the Department's cash balance of \$11.9 million, at the end of fiscal year 2000, to a \$17.0 million balance at the end of fiscal year 2001. The revenue surplus was a result of several factors including the fact that this was the first year for the Department to receive these revenues and they did not have all of their plans in place as to how best to use these funds. In addition, during the 2002 General Assembly session, the Department encountered the possibility of losing this new revenue source as a result of budget reductions. Due to this possibility, the Department did not go forward with any programs supported by these funds in case the loss did occur.

Cash Balances



In addition to the \$9.2 million received in fiscal year 2001, the Department has received an additional \$9.2 million, as of March 15, 2002, and anticipates receiving an additional \$3.1 million, for a total of \$12.3 million in sales tax collections for fiscal year 2002. Due to the increase in funding, the Department has contracted with a vendor to assist in developing a long-term strategic plan. With a new strategic plan, the Department plans to use their funding for services that will benefit all of the Commonwealth's citizens. The Department expects to complete the strategic plan and have the Board consider and adopt the plan in mid to late 2002.

INTERNAL CONTROL FINDING AND RECOMMENDATION

During the course of our audit work, we identified the following internal control finding:

Properly Record and Track Assets on the Fixed Asset Accounting and Control System

The Department does not properly surplus and dispose of fixed assets in accordance with the Commonwealth Accounting Policies and Procedures (CAPP) Manual. We found several internal control weaknesses that have resulted in the improper recording of fixed assets in the Fixed Asset Accounting and Control System (FAACS). These internal control weaknesses arose from poor communication between the central office and department personnel, not following procedures for properly tracking and recording surplus and disposed equipment, and not recording obsolete assets at their net realizable value.

- Department personnel are not reporting surplus assets to the central office. Three of the six capitalized assets selected for testwork from FAACS could not be located because they had been previously surplus by the agency. In all three cases, the proper paperwork had not been completed and submitted to the fixed asset coordinator.

- The Department does not have adequate procedures to identify their surplus or obsolete controllable asset inventory. Five of the six controllable assets selected for testwork had either been previously surplus or are considered obsolete but were listed as in use in FAACS. In addition, the auditor found 185 controllable assets currently listed on FAACS that were either obsolete or had been previously surplus but were listed as in use. The Department should record obsolete items at their net realizable value.
- Department personnel are not following inventory procedures established by the CAPP manual. The inventory procedures require agency personnel to verify that the assets exist and determine whether or not the asset is defective or obsolete. Per review of the Department's fiscal year 2000 inventory, agency personnel did not identify defective or obsolete assets.

The Department should strengthen controls over the surplus and disposal of assets to ensure proper updating of assets in FAACS. The Department should ensure that all department personnel properly report changes in fixed assets to the fixed asset coordinator. The Department needs to perform a complete inventory of assets to ensure that their asset balance in FAACS is accurate.

In acknowledgment of these issues, the Department began implementing policies and procedures to correct these issues as soon as they became aware of them. The Department moved the fixed asset function from the Office of Capital Programs to the General Accounting section to provide more oversight and accounting expertise. The Department has established a Fixed Assets committee to review all assets, develop a policy for controllable assets, and ensure that the Department's new Asset Management System will be used to track all controllable assets once it comes on line. Finally, the Department plans to conduct a complete physical inventory of fixed assets by December 2002.

DEPARTMENT OF GAME AND INLAND FISHERIES
Richmond, Virginia

William L. Woodfin, Jr., Director

Raymond E. Davis, Director of Administration

BOARD OF DIRECTORS

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Billy R. Cramer	Will McNeely
Charles H. Cunningham	Rickie L. Richards
Jimmy Dean	Jack T. Shoosmith
Dan R. McCoy	Robert K. Wheeler